

Business leagues; laboratory profits. A board of trade that, as its principal activity, provides grain analysis laboratory services to members and nonmembers at the same charge and that is supported almost entirely from the substantial profits of the laboratory, which is of a kind customarily carried on for profit, is not exempt from tax under section 501(c)(6) of the Code. I.T. 2801 superseded.

The purpose of this Revenue Ruling is to update and restate the position set forth in I.T. 2801, XIII-2 C.B. 147 (1934), under the current law and regulations. The question is whether a board of trade which provides laboratory services to members and nonmembers under the circumstances described below qualifies for exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954.

At the time the board of trade was organized, its only source of revenue was the dues of members. Subsequent to its organization, the board established a laboratory to determine the protein content of grain samples submitted to it for testing. The board realizes income from charges made for the laboratory services. The services are available to nonmembers as well as members for the same charge. Each year since its inception, the operation of the laboratory has returned a substantial profit to the board. Membership dues always amounted to less than the profit realized from the laboratory, and the dues were eventually discontinued when the income from the laboratory exceeded the overall expenses of the board. The board has accumulated a substantial surplus attributable to the operation of the laboratory. In the most recent year, the laboratory accounted for virtually all of the board's income and two-thirds of its expenses. The operation of the laboratory serves as a convenience to those who use its services because such services are necessary to them in their respective business operations. Although the organization also engages in other activities, the operation of the laboratory is now the principal activity of the organization.

Section 501(c)(6) of the Code provides for the exemption from Federal income tax of business leagues, chambers of commerce, real estate boards, or boards of trade, not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations provides that:

A business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be

directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining, is not a business league. . . .

In *Forth Worth Grain and Cotton Exchange*, 27 B.T.A. 983 (1933), the Board of Tax Appeals held that providing laboratory services for grain dealers was an activity customarily carried on for profit.

In the light of the above facts and circumstances, the principal activity of the organization is to provide particular services to individuals and to engage in business of a kind ordinarily carried on for profit. Such activity does not further exempt purposes within the meaning of section 501(c)(6) of the Code.

Accordingly, the organization is not exempt from Federal income tax under section 501(c)(6) of the Code.

I.T. 2801 is superseded.

Internal Revenue Service